524

Roll No. ....

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 15***

NOTE : *Answer **ALL** Questions.*

PART—I

1. Vikas Steel & Co. (''The Company'') is a steel manufacturing company in existence since the past three decades. The Executive Chairman and Managing Director is Mr. Mohan. Mr. Mohan is a Mechanical Engineer and has constructed and operationalized the steel plant. The steel plant has achieved major success with the growing economy. Ms. Disha, Mr. Mohan's daughter, is an Executive Director at the Company. She oversees the operations of the Company. A study was done by the Operations team and it felt the need to modernize the Company's operations. The estimated budget for the modernization efforts is likely to be INR 75 lakh. The merchant bankers of the Company advise the Company to partially raise capital by issue of equity shares by way of an Initial Public offering.

The prospectus of Vikas & Co's equity issue for 50,000 equity shares of INR 100 each. (Issue price INR 120). Payment to be made is as follows :

On application	INR 25
On allotment (Including premium of INR 20)	INR 50
First Call	INR 20
Final Call	INR 25

Applications were received for 75000 shares. Shares were allotted to the applicants on pro rata basis.

Kamal who was allotted 500 shares did not pay the allotment money. He also failed to pay the first call. His shares were forfeited. Amar was holding 200 shares did not pay the first call. Final call was not made.

The Company had appointed four underwriters. The entire issue was underwritten as follows :

Underwriter	**% share in underwriting**
P	35%
Q	25%
R	20%
S	20%

The underwriting commission is paid @ 1.5%.

Required :

(*a*) Pass all the journal entries for issue and forfeiture of equity shares with necessary working notes.

(*b*) Calculate the underwriting commission for each underwriter.

(*c*) Pass all the journal entries for payment of underwriting commission.

(*10+3+2=15 marks*)

2. (*a*) The Human Resources team of Rama Ltd. has implemented an Employee Stock Option Plan for eligible employees one year after listing of the Company's share in stock exchange. On April 1, 2022, Options were granted for 20,000 equity shares at INR 40 when market price was INR 130. The employees exercised their options for 19,000 shares only between 15th March, 2023 and 31st March, 2023; the remaining options lapsed. The company closes its books on 3lst March every year.

Show Journal Entries.

(*5 marks*)

(*b*) ABC & Co. issued 5,000 debentures of INR 1,000/- each at a premium of 10%, payable INR 200 on application, INR 500 on allotment (including premium) and the balance on first and final call. Applications were received for 7,000 debentures. Applications for 4,500 debentures were accepted in full, applicants for 1,000 debentures were allotted 500 debentures and remaining applications were rejected. All money were duly received.

Pass all the journal entries.

(*6 marks*)

(*c*) Kapoor Ltd. with subscribed capital of INR 7,50,000 consisting of 75,000 Equity shares of INR 10 each; called up capital INR 7.50 per share. A bonus of INR 1,87,500 declared out of General Reserve to be applied in making the existing shares fully paid up.

Pass Journal Entries in the books of Kapoor Ltd.

(*4 marks*)

3. (*a*) Below given is the Balance Sheet of Bharat Chemical Ltd. as on 31st March, 2025.

Balance Sheet of Bharat Chemical Ltd. as on 31st March, 2025

Liabilities :	**Amount (INR)**	**Amount (INR)**
2,00,000, 14% Preference shares of INR100 each, fully called	2,00,00,000	
Less : Calls in arrears @ INR 20 per share	4,00,000	1,96,00,000
10,00,000 Equity shares of INR 10 each, INR 8 per share called	80,00,000	
Less : Calls-in-arrears	20,000	
Add : Calls-in-advance	10,000	79,90,000
Securities premium		5,10,000
General reserve		1,50,00,000
10,000, 15% Debentures @ INR 1,000 each, fully paid		1,00,00,000
Current liabilities and provisions		10,00,000
Total		**5,41,00,000**

Assets :		
Fixed Assets		1,30,00,000
Investments		28,00,000
Other current assets		2,15,00,000
Cash and bank balances		1,68,00,000
Total		**5,41,00,000**

On 1st April, 2025, the Board of Directors decided that :

(*i*) The fully paid preference shares are to be redeemed at a premium of 4% on 1st May, 2025 and for that purpose 6 lakh equity shares of INR 10 each are to be issued at a premium of 5%.

Considering the information given above, pass the required journal entries in the books of the company.

(*5 marks*)

(*b*) Yash Ltd. recently reported the following income Statement :

Particulars	**(INR in Crores)**
Sales	600
Operating Cost	470
EBIT	130
Interest	40

EBT	90
Taxes @ 40%	36
EAT (Net Income)	54
Dividend	21.6
Retained Earnings	32.4

This year company is forecasting 25% increase in sales and it expects that its year end operating cost will be around 70% of sales. It is expected that tax rate, interest and dividend pay-out ratio will be constant.

Calculate the following :

(*i*) Projected Net Income

(*ii*) Expected growth rate in dividend.

(*3+2=5 marks*)

(*c*) The following information is given for Kabir Ltd., based on 360 days working in a year :

- Total revenue from operations INR 40,00,000/-
- Trade receivables as on April 2024 INR 4,15,000/-
- Trade receivables as on March 2025 INR 4,75,000/-
- Cash revenue from operations : 20% of revenues from operations

Calculate :

(*i*) Trade receivables turnover ratio

(*ii*) Average credit period.

(*3+2=5 marks*)

Attempt all parts of either Q. No. 4 or Q. No. 4A

4. (*a*) Following is the Balance Sheet of XYZ & Co. as on March 31, 2024 :

Liabilities	**INR in lakhs**	**Assets**	**INR in lakhs**
Equity share capital (Fully paid-up shares of ₹ 10 each)	4,800	Machinery	7,200
Securities Premium	700	Furniture	904
General Reserve	1,860	Investments	296
Profit and Loss Account	680	Stock	2,400
12% Debentures	3,000	Debtors	1,040
Sundry Creditors	1,500	Cash at Bank	1,480
Sundry Provisions	780		
	13,320		**13,320**

On April 1, 2024, the company announce buyback of 25% of equity share capital at INR 13/- per share. For the purpose :

– Investments were sold for INR 300 lakhs

– Issued 4,00,000 preference shares of INR 100 each at par. Entire amount is payable at application.

The buyback was completed in due time. Show journal entries for above transactions.

(*5 marks*)

(*b*) On the basis of the following information provided by X Ltd. Prepare a Cash Flow Statement for the year ended on 31st March 2025 :

(*i*) X Ltd. sold all the goods for cash only and purchased the goods in credit from suppliers only.

(*ii*) The company has made a total purchase of INR 77,00,000.

(*iii*) The company paid INR 45,00,000 as wages and INR 9,00,000 as office expenses during the year.

(*iv*) Balance of Suppliers accounts on 31.03.2024 were higher than the balance on 31.03.2025 by INR 3,00,000.

(*v*) Tax paid by the company amounts to INR 8,00,000 while provision for taxation was INR 7,00,000.

(*vi*) The company repaid bank loan of INR 17,50,000 which included interest of INR 1,50,000.

(*vii*) Dividend paid during the year INR 5,00,000 (including dividend distribution tax).

(*viii*) X Ltd. sold investments of INR 60,00,000 at a profit of INR 4,00,000.

(*ix*) Furniture purchased during the year INR 20,00,000.

(*x*) Cash and Cash Equivalents as on 31.03.2024 was INR 10,00,000.

(*xi*) Cash and Cash Equivalents as on 31.03.2025 was INR 49,50,000.

(*5 marks*)

(*c*) A Ltd. acquired assets worth INR 1,75,00,000/- from V Ltd. The consideration was paid as follows :

– Payment by cheque : INR 55,00,000/-

– Remaining by issue of shares to V Ltd. shares of INR 10/- are issued at a premium of 20%.

What will be the number of shares to be issued by A Ltd. to V Ltd ?

Pass all the journal entries.

(*5 marks*)

OR (Alternate question to Q. No. 4)

4A. (*i*) What are borrowing costs as per Accounting Standard 16 ? When would borrowing costs be capitalized ?

(*ii*) Distinguish between free cash flow to firm and free cash flow to equity.

(*iii*) What are the five key features of Schedule III of the Companies Act, 2013, which prescribes the form and disclosures for the Balance Sheet and Statement of Profit and Loss ?

(*5 marks each*)

PART—II

5. Tara & Co. (‘‘The Company’’) is a private sector electrical engineering company that is in existence for the past four decades. Mr. Bhushan is the founder of the company and is the existing Chairman and Managing Director. Geeta is a finance professional and brings rich experience to the company. Currently, Geeta is the Chief Financial Officer of the Company. Tara & Co is engaged in manufacturing, installation and maintenance of low voltage electricity cables. Their main customer base is Government and private sector electric utilities. The Company prefers taking short term projects with fast turnaround and payment cycles. Geeta is of the opinion that a change in strategy is required. The Company should consider bidding for longer term projects which have potential for earning higher return on invested capital, assured cash flows and known existing clients.

Four such projects are identified by the marketing team. The Company has the capacity to undertake all the four projects if they meet the required criteria.

- Cut-off rate of return is 18%
- Period of payback should not exceed 6 years.

Key financials are given below :

Proposal	Investment (INR in crore)	Annual Net Cash Inflows (after tax before depreciation) (INR in crore)	Service Life (In Years)	PVF @ 18%
A	300	73	11	6.18
B	850	95	18	19.67
C	925	125	12	7.29
D	250	38	10	5.23

The marketing team of Tara & Co. also have a plan to expand in foreign territories. There are a number of goodwill projects being undertaken by the Government of India for smaller Nations. The marketing team has selected two projects for application. Both the projects are being financed by the Government of India and are identical. However, Geeta feels that the project that has less risk embedded in cash flows should be selected.

Yearly cash inflow and associated probability are given for the two projects.

Proposal X		Proposal Y	
Cash Inflow (INR crores)	Probability	Cash Inflow (INR crores)	Probability
4,000	0.2	4,000	0.1
8,000	0.3	8,000	0.4
12,000	0.4	12,000	0.2
16,000	0.1	16,000	0.3

Initial capital deployment is necessary given that additional projects will be executed in future. An investment of INR 1,000/- crore is estimated. The initial investment will be financed by 25% equity and 75% debt. The interest cost is 14% per annum. The income tax rate is 15%.

Based on the given facts and circumstances, you are required to :

(*a*) Rank the proposals A to D according to payback period. Which proposals can be accepted ?

(*b*) Rank the proposals A to D according to Present Value Index Method. Which proposals can be accepted ?

(*c*) Calculate coefficient of Variation for Proposal X and Proposal Y.

(*d*) Which proposal is riskier and which proposal should be accepted ?

(*5+5+8+2=20 marks*)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. (*a*) Ganeshan Limited is evaluating a project that has the following cash flow stream associated with it :

Year	0	1	2	3	4	5	6
Cash Flow (INR)	–120	–80	20	60	80	100	120

The cost of capital is 15 percent. Calculate the terminal value of cash inflow of the company.

(*5 marks*)

(*b*) ABC & Co. is a contract manufacturer in the textile industry. It manufactures formal shirts under licence from brand owners. The installed capacity is 18,000 units. It is estimated that the current year sales will be 15,000 units.

Other details :

Variable cost per unit	INR
Raw materials	30/-
Labour cost	10/-
Other variable costs	20/-

Fixed costs are expected to be INR 4,80,000/-

You are required to calculate selling price to be quoted for a desired profit of INR 4,20,000/-

(*5 marks*)

(*c*) The following figures relate to the capital structure of ABC & Co.

Particulars	
EBIT	INR 10,00,000
Debentures	INR 30,00,000
Interest on debentures	10%
Cost of equity	14%

You are required :

(*i*) Compute the total market value of ABC & Co.

(*ii*) Overall cost of capital.

Ignore Taxation and assume Net Income Approach.

(*3+2=5 marks*)

(*d*) Calculate Market Value Added of Zinc Ltd., from the following information :

Number of shares issued	1,00,00,000
Number of shares held as treasury stock	5,00,000
Current share price (INR)	40/-
Total Invested Capital + Retained Earnings (INR)	25,57,00,000
Cost of treasury stock (INR)	2,00,00,000

Assume market value of debt equals its book value.

(*5 marks*)

OR (Alternate question to Q. No. 6)

6A. (*i*) What is the Rule of 69 in the context of the doubling period ? Mention any two benefits and two limitations of this rule.

(*5 marks*)

(*ii*) Classify the following risks as systematic and unsystematic :

– Changes in laws/regulations

– A foreign government expropriates the assets of a specific company

- Interest rate hikes
- A company is forced to recall one of its products
- Changes in foreign policy
- Volatility in currency values
- The entry of a new competitor into a market
- A company is found to have prepared fraudulent financial statements
- Tax Reforms
- A union targets a company for an employee walk out.

(*5 marks*)

(*iii*) Discuss the concept of Relative Strength Index.

(*5 marks*)

(*iv*) What is the Hamada Equation in terms of Capital Structure ?

(*5 marks*)

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